

TO UNITHOLDERS

For the quarter ended June 30, 2017, net profits income was \$1,633,117 compared to \$1,391,073 for second quarter 2016. This 17% increase in net profits income is primarily the result of increased oil and gas prices (\$1.2 million), partially offset by decreased oil and gas production (\$0.4 million), net excess costs activity on the Texas and Oklahoma working interest properties (\$0.2 million), increased development costs (\$0.2 million) and increased taxes, transportation, and other (\$0.2 million). See “Net Profits Income” on the following page.

After considering interest income of \$1,532 and administration expense of \$113,097, distributable income for the quarter ended June 30, 2017 was \$1,521,552, or \$0.253592 per unit of beneficial interest. Administration expense for the quarter decreased \$2,979 from the prior year quarter, primarily related to the timing of receipt and payment of Trust expenses and terms of professional services. Changes in interest income are attributable to fluctuations in net profits income and interest rates. For second quarter 2016, distributable income was \$975,180, or \$0.162530 per unit.

Distributions to unitholders for the quarter ended June 30, 2017 were:

RECORD DATE	PAYMENT DATE	PER UNIT
April 28, 2017	May 12, 2017	\$ 0.091469
May 31, 2017	June 14, 2017	0.076796
June 30, 2017	July 17, 2017	0.085327
		<u>\$ 0.253592</u>

For the six months ended June 30, 2017, net profits income was \$3,257,788 compared to \$4,097,179 for the same 2016 period. This 20% decrease in net profits income is primarily the result of

decreased oil and gas production (\$1.6 million), net excess costs activity on the Texas and Oklahoma working interest properties (\$0.8 million) and increased development costs (\$0.1 million), partially offset by increased oil and gas prices (\$1.5 million) and decreased production expense (\$0.2 million). See “Net Profits Income” on the following page.

After considering interest income of \$2,519 and administration expense of \$355,335, distributable income for the six months ended June 30, 2017 was \$2,904,972, or \$0.484162 per unit of beneficial interest. Administration expense for the six months ended June 30, 2017 increased \$14,077 from the prior year six-month period, primarily related to the timing of receipt and payment of Trust expenses and terms of professional services. Changes in interest income are attributable to fluctuations in net profits income and interest rates. For the six months ended June 30, 2016, distributable income was \$3,156,162, or \$0.526027 per unit.

Individualized tax information is provided annually to unitholders of record. Unitholders owning units in nominee name may obtain monthly tax information from the Trustee upon request or from the Trust’s website at www.crt-cross timbers.com.

This letter, and all communications to unitholders, includes information provided to the Trustee by XTO Energy Inc.

Cross Timbers Royalty Trust
By: Southwest Bank, Trustee



By: Nancy G. Willis
Vice President

CONDENSED STATEMENTS OF DISTRIBUTABLE INCOME (Unaudited)

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2017	2016	2017	2016
Net Profits Income.....	\$ 1,633,117	\$ 1,391,073	\$ 3,257,788	\$ 4,097,179
Interest Income.....	1,532	183	2,519	241
Total Income.....	1,634,649	1,391,256	3,260,307	4,097,420
Administration Expense.....	113,097	116,076	355,335	341,258
Cash Reserves Withheld for Trust Expenses	—	300,000	—	600,000
Distributable Income	\$ 1,521,552	\$ 975,180	\$ 2,904,972	\$ 3,156,162
Distributable Income Per Unit (6,000,000 units)	\$ 0.253592	\$ 0.162530	\$ 0.484162	\$ 0.526027

These condensed statements of distributable income should be read in conjunction with the financial statements and notes thereto included in the Trust’s 2016 annual report. For further information, see the Trust’s quarterly report on Form 10-Q for the quarter ended June 30, 2017.

Statements in this report to unitholders relating to future plans, predictions, events or conditions are forward-looking statements. All statements other than statements of historical fact included in this report to unitholders including, without limitation, statements regarding the net profits interests, underlying properties, development activities, development, production and other costs and expenses, oil and gas prices and differentials to NYMEX prices, distributions to unitholders, and industry and market conditions, are forward-looking statements that are subject to risks and uncertainties which are detailed in Part I, Item 1A of the Trust’s Annual Report on Form 10-K for the year ended December 31, 2016, which is incorporated by this reference as though fully set forth herein. XTO Energy and the Trustee assume no duty to update these statements as of any future date.

Net Profits Income

Net profits income is recorded when received by the Trust, which is the month following receipt by XTO Energy and generally two months after oil production and three months after gas production. Net profits income is generally affected by three major factors:

- oil and gas sales volumes,
- oil and gas sales prices, and
- costs deducted in the calculation of net profits income.

Because properties underlying the 90% net profits interests are primarily royalty and overriding royalty interests, the calculation of net profits income from these interests includes deductions for production and property taxes, legal costs, and marketing and transportation charges. In addition to these costs, the calculation of net profits income from the 75% net profits interests includes deductions for production expense, development costs and overhead since the related underlying properties are working interests.

The following are explanations of significant variances on the underlying properties from second quarter 2016 to second quarter 2017 and from the first six months of 2016 to the comparable period in 2017:

Sales Volumes

Oil. Oil sales volumes decreased 10% for second quarter 2017 and decreased 10% for the six-month period as compared with the same 2016 periods primarily because of natural production decline and the timing of cash receipts.

Gas. Gas sales volumes decreased 12% for second quarter 2017 and decreased 30% for the six-month period as compared with the same 2016 periods primarily because of the timing of cash receipts in 2016 related to purchaser payments covering production back to 2013 and natural production decline.

The estimated rate of natural production decline on the underlying oil and gas properties is approximately 6% to 8% a year.

Sales Prices

Oil. The average oil price increased 48% to \$47.76 per Bbl for the second quarter and increased 36% to \$46.47 per Bbl for the six-month period. The second quarter 2017 oil price is primarily related to production from February through April 2017, when the average NYMEX price was \$51.45 per Bbl.

Gas. Gas prices for the second quarter increased 53% to \$4.34 per Mcf and for the six-month period increased 14% to \$4.15 per Mcf. Excluding the impact of the prior period production payments received in 2016, the adjusted average gas price for the six-months ended June 30, 2016 was \$2.75, which represents a 51% increase for the six-months ended June 30, 2017 from the same 2016 period. The second quarter 2017 gas price is primarily related to production from January through March 2017, when the average NYMEX price was \$3.32 per MMBtu.

Costs

Taxes, Transportation and Other. Taxes, transportation

and other costs increased 45% for the second quarter primarily because of higher production taxes related to increased oil and gas revenues. Taxes, transportation and other costs were relatively flat for the six-month period due to minimal changes in total revenues.

Production Expense. Production expense increased 3% for the second quarter primarily because of increased repairs and maintenance, power and fuel, and labor costs, partially offset by decreased secondary recovery and other miscellaneous non-operated expenses. Production expense decreased 11% for the six-month period primarily because of decreased secondary recovery costs, miscellaneous non-operated expenses and overhead, partially offset by increased plug and abandonment costs.

Development Costs. Development costs increased 148% for the second quarter and 31% for the six-month period primarily because of increased activity and costs, related to the timing of expenditures, on the Texas and Oklahoma oil properties underlying the 75% net profits interests.

Excess Costs

If monthly costs exceed revenues for any conveyance, such excess costs must be recovered, with accrued interest, from future net proceeds of that conveyance and cannot reduce net proceeds from other conveyances.

The following summarizes excess costs activity and cumulative balances by conveyance:

	Underlying		
	TX WI	OK WI	Total
Cumulative excess costs remaining at 12/31/16 ...	\$1,747,819	\$ 655,835	\$2,403,654
Net excess costs (recovery) for the quarter ended 3/31/17	45,131	(317,927)	(272,796)
Net excess costs (recovery) for the quarter ended 6/30/17	55,628	(249,993)	(194,365)
Cumulative excess costs remaining at 6/30/17	<u>\$1,848,578</u>	<u>\$ 87,915</u>	<u>\$1,936,493</u>
	NPI		
	TX WI	OK WI	Total
Cumulative excess costs remaining at 12/31/16 ...	\$1,310,865	\$ 491,876	\$1,802,741
Net excess costs (recovery) for the quarter ended 3/31/17	33,848	(238,445)	(204,597)
Net excess costs (recovery) for the quarter ended 6/30/17	41,721	(187,495)	(145,774)
Cumulative excess costs remaining at 6/30/17	<u>\$1,386,434</u>	<u>\$ 65,936</u>	<u>\$1,452,370</u>

Continued lower oil prices in relation to operating expenses and increased development costs resulted in net excess costs on properties underlying the Texas working interests for the quarter ended June 30, 2017.

Improved oil prices resulted in the partial recovery of excess costs on properties underlying the Oklahoma working interests for the quarter ended June 30, 2017.

Underlying cumulative excess costs for the Texas and Oklahoma working interest conveyances remaining as of June 30, 2017 totaled \$1,936,493 (NPI \$1,452,370).

Contingencies

Several states have enacted legislation requiring state income tax withholding from nonresident recipients of oil and gas proceeds. After consultation with its tax counsel, the Trustee believes that it is not required to withhold on payments made to

the unitholders. However, regulations are subject to change by the various states, which could change this conclusion. Should amounts be withheld on payments made to the Trust or the unitholders, distributions to the unitholders would be reduced by the required amount, subject to the filing of a claim for refund by the Trust or unitholders for such amount.

GLOSSARY

Bbl	Barrel (of oil)
Mcf	Thousand cubic feet (of natural gas)
MMBtu	One million British Thermal Units, a common energy measurement

CALCULATION OF NET PROFITS INCOME

The following is a summary of the calculation of net profits income received by the Trust:

	THREE MONTHS ENDED JUNE 30 [A]		INCREASE (DECREASE)	SIX MONTHS ENDED JUNE 30 [A]		INCREASE (DECREASE)
	2017	2016		2017	2016	
Sales Volumes						
Oil (Bbl) [B]						
Underlying Properties.....	51,434	57,269	(10%)	104,798	116,135	(10%)
Average Per Day.....	578	636	(9%)	579	638	(9%)
Net Profits Interests.....	11,997	17,157	(30%)	25,099	33,372	(25%)
Gas (Mcf) [B]						
Underlying Properties.....	381,833	432,502	(12%)	809,267	1,144,289	(30%)
Average Per Day.....	4,243	4,753	(11%)	4,408	6,253	(30%)
Net Profits Interests.....	355,180	402,610	(17%)	705,090	1,038,416	(32%)
Average Sales Prices						
Oil (per Bbl).....	\$ 47.76	\$ 32.19	48%	\$ 46.47	\$ 34.20	36%
Gas (per Mcf).....	\$ 4.34	\$ 2.83	53%	\$ 4.15	\$ 3.65	14%
Revenues						
Oil sales	\$2,456,480	\$1,843,425	33%	\$4,869,556	\$3,971,864	23%
Gas sales	1,656,973	1,222,849	36%	3,333,253	4,179,048	(20%)
Total Revenues	4,113,453	3,066,274	34%	8,202,809	8,150,912	1%
Costs						
Taxes, transportation and other.....	623,666	429,308	45%	1,263,314	1,257,370	—
Production expense [C]	1,042,498	1,014,786	3%	2,114,640	2,386,705	(11%)
Development costs	438,350	176,677	148%	737,930	562,911	31%
Excess costs	194,365	(100,134)	N/A	467,161	(608,495)	N/A
Total Costs	2,298,879	1,520,637	51%	4,583,045	3,598,491	27%
Net Proceeds.....	\$1,814,574	\$1,545,637	17%	\$3,619,764	\$4,552,421	(20%)
Net Profits Income.....	\$1,633,117	\$1,391,073	17%	\$3,257,788	\$4,097,179	(20%)

[A] Because of the interval between time of production and receipt of royalty income by the Trust, (1) oil and gas sales for the quarter ended June 30 generally represent oil production for the period February through April and gas production for the period January through March and (2) oil and gas sales for the six-months ended June 30 generally represent oil production for the period November through April and gas production for the period October through March.

[B] Oil and gas sales volumes are allocated to the net profits interests by dividing Trust net cash inflows by average sales prices. As oil and gas prices change, the Trust's allocated production volumes are impacted as the quantity of production necessary to cover expenses changes inversely with price. As such, the underlying property production volume changes may not correlate with the Trust's allocated production volumes in any given period. Therefore, comparative discussion of oil and gas sales volumes is based on the underlying properties.

[C] Production expense includes an overhead charge which is deducted and retained by the operator. XTO Energy deducts an overhead charge as reimbursement for costs associated with monitoring these interests.

TAX INFORMATION PER UNIT

	MONTHLY DISTRIBUTIONS PAID ON: (\$/UNIT EXCEPT COST DEPLETION FACTORS)			
	May 12, 2017	June 14, 2017	July 17, 2017	Total
Gross Income.....	\$ 0.121704	\$ 0.105347	\$ 0.109148	\$ 0.336199
Less Severance Taxes.....	(0.021960)	(0.020917)	(0.021136)	(0.064013)
Interest Income.....	0.000069	0.000089	0.000098	0.000256
Less Administration Expenses.....	(0.008344)	(0.007723)	(0.002783)	(0.018850)
Reconciling Items.....	0.000000	0.000000	0.000000	0.000000
Net Cash Distribution.....	<u>\$ 0.091469</u>	<u>\$ 0.076796</u>	<u>\$ 0.085327</u>	<u>\$ 0.253592</u>
Cost Depletion Factors:				
Texas - 90%	0.008853	0.007238	0.007071	0.023162
Oklahoma - 90%.....	0.012786	0.013296	0.015188	0.041270
New Mexico - 90%	0.007106	0.005890	0.006987	0.019983
Texas - 75%	0.000000	0.000000	0.000000	0.000000
Oklahoma - 75%.....	0.000000	0.000000	0.000000	0.000000

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